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Exporter Guide for Latvia

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Report Highlights:

The overall economic growth continued positive in 1998. The market has shown increasing evidence of recovery from the slow down in trade volumes that came in the wake of the Russian financial crisis. The growing retail sector is looking for new food imports. Prospects for increased demand for processed food products are viewed as favorable.

Includes PSD changes: No
Includes Trade Matrix: No

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SECTION I. MARKET OVERVIEW

CY 1998 was a significant year for the economy of Latvia -- growth continued although overall situation was affected by the serious economic crisis in Russia in fall 1998. The strict monetary and tight fiscal policy pursued by the Latvian Government, as well as successful structural reforms were the key factors that helped to maintain macroeconomic stability in overcoming the difficulties provoked by the instability of the world financial system, and the Russian crisis in particular. Both the low annual inflation rate (2.8%) and the growth of the GDP (3.6%) rank among the most successful among the economies of Central and Eastern Europe during 1998. Private consumption went up by 5.8%. The GDP growth in 1999 is predicted flat or slight below zero, and a 2-4% growth in 2001. The FY2000 state budget was approved with a deficit target of 2% of GDP.

In February 1999, Latvia became the first of the Baltic states to enter the WTO. The status of a member country is expected to promote the expansion of trade and growth in GDP.

At the December 1999 Helsinki Summit, Latvia was invited to start EU accession negotiations; and, as a consequence, Latvia has begun the process of complying with EU procedures and requirements for the integration of its food industry into the common European market -- including the adoption of all EU meat and poultry directives. Involvement of Western European companies with the Latvian food processors have shown foreign investment to play a strategic role in the development of the whole food market sector.

European food exporters have captured market shares with a strong market presence over the last five-six years as a result of proximity, historical ties, good quality products at competitive prices, logistical advantages and a service orientation. Based on the Free Trade agreement with the EU in force since 1995, exports from European countries face lower duties, compared to U.S. exports.

The Russia's crises in August 1998 resulted in a serious squeeze of this traditional export market of many countries, and competition increased on Latvian food market between the domestic producers, Baltic Free Trade Agreement member countries of Estonia and Lithuania, and EU exporters. Price competition is still fierce.

Consumption patterns of high value processed goods are concentrated within a small percentage of the population. The October 1999 increase in purchasing power by 3.4% over the level a year earlier allows for further consumption growth forecasts.

On average, consumer demand remains very price sensitive. The average income level of nearly half of population was close to minimum subsistence level. A negative effect of Latvia's fast economic reform has been a skewed income distribution and segments of the population which presently function in poverty. The average gross monthly wage in the public sector totaled \$261 in October 1999, and the average income per household member was US \$109, of which nearly half is spent on food.

Total population numbers are on the decline, due to negative birth rates and emigration. The official unemployment rate is 9.5% of the total labor force. The population is getting older. Of the 2.445 million population in Latvia, 26% are retired. The average pension of \$86 per month allows for almost no variety in food purchases.

Women account for 49% of 1.0 million people employed and contribute to increased demand in meals consumed away from home. Latvians spend approximately 13% of their total food dollar eating out. Prepared home meals are preferred to out of home dining by nearly half of families where the average income is close to minimum subsistence level. Nearly 30% of the population lives in rural areas where farming provides the staple mainly due to limited real purchasing power.

For most products, except meat, domestic production capabilities meet between 70-90% of demand. Foodstuff imports are viewed as means of adding to the variety of products.

Advantages	Challenges
The general image of U.S. products is positive.	Low awareness of U.S. food products.
U.S. products are considered safe and good quality.	Consumer demand remains very price sensitive.
Increase of purchase power allows customer choice.	Long established consumer preference for domestic fresh products with short shelf life and without additives.
The growing retail sector is looking for new food imports.	High competition on local market between domestic producers and increasing imports from EU and Baltic neighbors. Significant share of food products is being smuggled from Central European countries into Latvia.
Viewed strategically, Latvia is attractive as a gateway to larger regional markets, including St. Petersburg and Northwestern Russia, Belarus, CIS and two other Baltic countries of Estonia and Lithuania.	With Latvian- EU FTA (signed 1995) in force, tariffs for EU imports are gradually declining compared to the MFN rates applied to imports from the U.S.
Latvia joined WTO in 1999 enabling easier market access	The absence of a clear legislative distinction between wholesale and retail operations negatively impacts retail trade system's development.
Baltic Free Trade Agreement enables suppliers to view the Baltics as a single market.	Latvia is a small target market for US products.

The overall business environment is open to US companies.	Attempts to protect domestic producers by introducing safeguard measures.
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SECTION II. EXPORTER BUSINESS TIPS

Local Business Customs

Imported processed food products are moving through about 10 of the largest importers-distributors. Imports to bonded warehouses based on consignment contracts have become popular. Some wholesalers have cash and carry type wholesale operations, but others operate chains of retail grocery stores and supermarkets. A number of smaller importers have specialized by specific type of product, and have local distributing company. In addition to cash and carry operations, large processors and distributors offer direct sales services. Agent/distributor companies are reluctant to receive offers to distribute specific products or limited lists of such products. No wholesaler undertakes a nation wide distribution or carries a complete range of products.

The large processors mostly purchase raw inputs and food ingredients directly from foreign exporters through their import/ export departments. Companies should be focused primarily on large wholesalers and distributors.

The choice of foreign supplier often depends on the company's ownership, because part of the stock of some the largest processing plants belong to foreign investor companies, who can base their decisions other than on quality or price. Small and medium companies mostly purchase through importers and wholesalers which have direct relationships with foreign suppliers.

In the event US exporters cannot sell their goods on credit terms, the best option might be the use of bonded warehouses, of which there are increasing numbers in the region. The status of a bonded warehouse guarantees full maintenance of title to the foreign exporter and makes it possible to sell goods in small lots directly to local importers and get payments before the transaction the same day. In practical terms, if a US exporter has an order from local importers and wholesalers (not able to buy a vessel load), he may want to bring the product to the port, put in a bonded warehouse and sell it in a certain period of time, in small portions to clients on a full down payment basis.

The best pattern for entering the market should include:

- market research in order to estimate product opportunities;
- finding an experienced distributor or independent reliable agent with strategic distribution channels who can advise on import duties, sanitary regulations, labeling requirements.
- try to calculate the cost of a landed product and overview the competitors. The level of sales will depend on price competitiveness;
- personal contact is advisable to discuss marketing. Negotiations of marketing strategies should include funding offers for advertising, slotting allowances, in store promotions and tasting, considerations about the trade fair

participation, to raise awareness of the product.

At present, there are no laws that regulate the relationship between a foreign company and its distributors or agents in Latvia. A distributor relationship can be determined based on specific agreement. No laws regulate franchises yet, and therefore, franchise agreements might be difficult to enforce.

U.S. products traditionally have lower customer awareness due to lack of promotional activities if compared to European products. Several constraints have contributed to the small market presence of U.S. foods so far: trade terms from U.S. companies are unacceptable to Latvian traders (advance payment requirement up to two-months, assumption of exchange rate risk and container purchases viewed as too large for the small Latvian market); a perception among Latvian importers that landed costs of U.S. products will be higher compared to European products, due to added transportation costs; a perception that U.S. exporters are simply too far away to service the Latvian market; Latvian importers and buyers simply lack information and awareness of U.S. processed food products.

General Consumer Tastes and Preferences

Consumer preferences differ significantly among various income, age and ethnic groups. A preference for new products is strong among the younger population, but a significant number of consumers remain “tasting level” buyers. There are long established consumer preference for domestic fresh products with short shelf life and without additives.

No certain attitudes have developed yet regarding biotech component, but as an associate member Latvia will in all likelihood follow the EU regulations and certification requirements. However, concerns exist about the presence of GMO (biotechnology) ingredients and consumers have shown a distinct interest in organic foods.

Food Standards and Regulations

Latvia is in the process of bringing its food legislation into conformity with EU requirements. The attempts were continued to ensure quality assurance infrastructure and legislation as a part of the National Program on Quality Assurance.

The food control institutions are the State Veterinary Department, State Food Quality inspection and Plant Products Inspection. The Food Law is in force since August 1997, and regulates the production, trade and distribution of food products, as well as health issues, consumer protection and food control. The Law is based on EU directives: 89/397/EEC and 93/99/EEC -- On Official Control of Food Products (6/14/89), 93/43/EEC on Hygiene (6/14/93), 79/112/EEC On Coordinating Member Countries' Laws on Labeling, Advertisement, and Sales of Food Products (12/18/79), 89/107/EEC On Coordinating Member Countries' Laws on Food Additives (12/21/89).

Latvian food legislation includes the Law on Competition, the Law on Consumer Rights Protection, the Domestic Market Protection Law, the Law on Packaging, the Law on Trade Marks ordinance On use of Food Additives, the Law on Labeling, Plant Protection Law, as well as special Laws regulating alcohol, grain, meat, dairy products flows, and veterinary and phyciosanitary legislation.

In 1998, the Law on Supervision of Food Flow respecting EU requirements on official control of food stuff was enforced. The ordinance On Use of Food Additives in food manufacturing conforms fully to EU decrees. The 1999 Law on Domestic Market Protection envisage a Commission to monitor the market situation and apply protective sanctions envisaged by the Law.

Latvia's Veterinary legislation includes the meat testing law, ordinance on licenced slaughterhouses, ordinance on hygiene in slaughter animals, processing, storage, transportation of meat and meat products, dairy products and fish. The Latvian veterinary department applies unified import certification of meat and meat products, dairy products and fish. Currently veterinary legislation is being adjusted to EU accession requirements.

A Law on Labeling requires a Latvian language label with information on ingredients, producer company name, country, importer name, and a consumption end date is mandatory. Such a label should be attached to each retail size package or bottle.

Import licences are still required for tobacco and alcohol imports. The Excise Goods Administration issues licences for producers, wholesalers and importers of alcohol and tobacco products, according to regulations on Flow of Tobacco Products, and Alcohol, enforced in 1997. Tobacco products require certificates of conformity, and level of nicotine issued by the National Certification Center. Tobacco and alcohol in retail must also bear an excise tax stamp.

The Latvian Patent Board has registered trademarks since 1992. Currently, about 10,000 trademarks have been registered, of which 1,500 are of Latvian origin.

The National Food Certification Center is in charge for tests of samples to receive a sales permit and certificate of conformity. It is common that the importer or agent undertakes product clearance and approval procedures.

The Customs Code stipulates 15 various customs procedures, and ordinances for declaring goods. Latvia's tariff schedule mostly reflects the WTO accession bindings, with agricultural tariffs averaging an ad valorem equivalent of 14.6%.

A temporary increase of duty tariffs by 70% (duty tariff rate is 115%) for fresh/chilled/frozen pork, was instituted between June 1 through December 17, 1999; but a parliamentary vote has prolonged pork market protection measures for 2 more years by establishing a customs price of \$1.81/per kilogram for taxes calculation may hamper any U.S. pork imports.

Following the EU ban on hormone treated U.S. beef products and Latvian veterinary legislation changes to comply to those of EU - there is a little hope for volume beef imports from U.S.

General Import and Inspection Procedures

Import documentation required by Latvian customs authorities includes a copy of the contract, an invoice, a bill of lading indicating the amount, weight and value of goods, and the original certificate of origin (form EUR.1 or form A). At the border, an importer or his agent must complete a customs declaration and a customs freight delivery note. All tax payments (18% VAT, import duties, package tax) have to be paid at the border, unless cargo is forwarded to a bonded warehouse.

Imported food and agricultural products need to be cleared through Border inspection, and sealed to ensure conformity of cargoes with the veterinary and phytosanitary and hygiene requirements.

For food imports, a producer's declaration or a food conformity certificate and a quality certificate has been required for food products under HS code groups 2-4, 7-12 and 15-23 since July 1995. U.S. products marked with UL can be marketed free. Other products should qualify for tests of samples to receive a sales permit in Latvia by the National Food Center s (NFC). An issued certificate of conformity allows for retail sales.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Food Retail Sector

The Latvian food retailing sector includes retail/wholesale enterprises with multiple retail and wholesale operations, chains of supermarkets and groceries, convenience stores, small corner shops, and outdoor markets to better service the food market requirements. Prospects for increased demand for consumer ready processed food products are viewed as favorable.

Retail food sales totaled \$US 942 million in 1998, the largest since 1995. Growth in 1999 placed at between 5-6%. The increased supermarkets sector accounts for 36% retail turnover of high value food products, and a further growth is anticipated by this sector. This sector welcomes new entrants.

The total number of stores selling food has decreased by 14% since 1995, in line with the restructuring and concentration process in the retail food sector. In 1998, retail food stores numbered 5,465, and in addition food was sold by about 19,000 kiosks, stands and retail outlets at traditional markets.

The development of a broader food market is currently hampered by uncontrolled wholesale sector where many wholesalers also operate as retailers and sell smuggled products at substantially cheaper prices. Estimates show about

third of imported food products smuggled into the country from Europe in an attempt to avoid taxes and other import charges.

For more information on Latvian food retail sector, please refer to HRI Sector Report on the FAS homepage at <http://www.fas.usda.gov>

HRI Food Service

The Latvian Hotel, Restaurant, Institution food services (HRI) sector is relatively small and fragmented. The recent boom in tourism and opening of fast food outlets and restaurants with international cuisines has begun to change the structure of food service market. So far only few companies have developed restaurant chains.

Latvian HRI service sales totaled \$ 128.1 million in 1998, an increase by 37% from 93.6 million in 1994 (sales include strong beverages and tobacco goods). Imported foods accounted for about 27% of total food service turnover in 1998.

The fast growing restaurant business, especially fast food entries and international cuisines present the best market for imported foods. In 1998, the restaurant and bar subsector led the food service market with a 77% share. The number of restaurants, canteens and cafes has gone down since the early nineties, reflecting a trend towards concentration trend and changes in service patterns.

Since the early nineties, different ethnic cuisines have entered the food service industry, e.g. Mexican, Chinese, Vietnamese, Italian, Indian, in addition to fast food entries offering pizzas, hot dogs, hamburgers. Although consumer preferences differ significantly among various income, age and ethnic groups, these new eating habits have been accepted by the younger population and tourists. Still lots of clients remain “tasting level” consumers.

The hotels/resorts sub-sector with nearly 150 establishments accounted for 6% of HRI sales worth \$US 8.1 million in 1998. Main factors contributing to the sector’s growth are rise of purchasing power, forecast resorts boom and increased tourism. No growth is forecast for institutional catering.

For more information on Latvian HRI sector, please refer to HRI Sector Report on the FAS homepage at <http://www.fas.usda.gov>

Food Processing Sector

While the food processing sector got off to a slow start in the early 1990's and subsequently underwent changes due to privatization and new market challenges, food enterprises have emerged as a significant sector of the economy offering employment, investment and trade opportunities. The largest industries are meat, dairy and fish processing.

The food processing industry accounts for 8-9% of GDP, and 43% of manufacturing output. In 1998, food production output totaled \$717 million. For most inputs and ingredients used by the food processing industry, local production

capabilities meet the demand. The value of raw materials and ingredients used in production was \$297 million, of which 28% were imports. Relatively small quantities of U.S. products are used in the sector.

Russia's economic and financial crises during the fall 1998 resulted in serious hardship for many traditionally export-oriented food industries. Production volumes declined by 6% from \$US 766 million in 1997. The recovery has started, though 99' growth prospects differ by sub sector. Prospects out to 2002 call for growth of between 3-4 percent for the sector as a whole. Price competition involving Latvian domestic food producers, Baltic Free Trade Agreement member countries Estonia and Lithuania, and EU exporters, became quite acute and remains so.

For more information on Latvian food processing sector, please refer to Food Processing Sector Report on the FAS homepage at <http://www.fas.usda.gov>

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

peanut butter
pasta preparations
tortillas
frozen and tinned seafood
muffins
barbeque foods/sauces
baking chocolate/chips
graham crackers
Creole/Cajun foods
sherbets
maple syrup
wine
corn meal
enchiladas
jalapenos
marshmallows
flapjacks

There is an opportunity to establish a market for dry, chilled and frozen processed products. Rather unfamiliar to Latvian consumers are low fat, low salt, sugar free, and cholesterol free products.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Food Certification Center
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For general questions about product import, please contact:

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Publication of Poultry Export Guide: Poland, Ukraine, Estonia, Latvia prepared by USDA Agricultural Marketing Service available at <http://www.ams.usda.gov/tmd/mta/index.htm>

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page: www.fas.usda.gov and the FAS/Stockholm regional headquarters office at www.usemb.se/Agriculture.

A. KEY TRADE & DEMOGRAPHIC INFORMATION

	1998
Agricultural Imports From All Countries (\$Mil) /U.S. Market Share (%)	430.8/2.3
Consumer Food Imports From All Countries (\$Mil)/U.S. Market Share (%)*/	205/3
Edible Fishery Imports From All Countries (\$Mil)/U.S. Market Share (%)*/	38/5
Total Population (Millions)/Annual Growth Rate (%)	2.4/-0.8%
Urban Population (Millions)/Annual Growth Rate (%)	1.7/-0.8%
Number of Major Metropolitan Areas	1
Size of the Middle Class (Millions)/Growth Rate (%)	15/N/A
Per Capita Gross Domestic Product (U.S. Dollars)	2.657
Unemployment Rate (%)	9.5
Per Capita Food Expenditures (U.S. Dollars)	1.534 year 128 monthly
Percent of Female Population Employed	48
Average Exchange Rate US\$1	0.58 Lats

*/1997 data (latest available from United Nations database)

GDP: 3773.5 LATS, iedz. 2.449, 1540 lati = urban: 70%. 97 iedz 2,

B. CONSUMER FOOD & EDIBLE FISHERY PRODUCT IMPORTS

Latvia (In Millions of Dollars)	Imports from the World			Imports from the U.S.			U.S Market Share, %		
	1995	1996	1997	1995	1996	1997	1995	1996	1997
CONSUMER-ORIENTED AGRICULTURAL TOTAL	98	136	205	1	2	5	1	2	3
Snack Foods (Excl. Nuts)	4	9	14	1	1	1	0	1	2
Breakfast Cereals & Pancake Mix	1	1	1	0	0	1	0	0	0
Red Meats, Fresh/Chilled/Frozen	3	9	10	0	1	1	0	1	0
Red Meats, Prepared/Preserved	1	1	3	1	1	1	1	2	1
Poultry Meat	1	2	5	1	1	2	29	29	35
Dairy Products (Excl. Cheese)	8	7	12	1	1	1	0	0	0
Cheese	1	1	1	0	0	0	0	0	0
Eggs & Products	1	1	1	1	0	0	5	0	0
Fresh Fruit	16	17	20	1	1	1	0	1	2
Fresh Vegetables	5	4	9	0	0	1	0	0	0
Processed Fruit & Vegetables	9	13	15	1	1	1	1	1	1
Fruit & Vegetable Juices	1	3	11	1	1	1	0	0	1
Tree Nuts	3	3	3	1	1	1	5	2	6
Wine & Beer	16	18	17	1	1	1	0	1	1
Nursery Products & Cut Flowers	1	2	4	1	1	1	0	1	2
Pet Foods (Dog & Cat Food)	1	3	5	1	1	1	7	12	6
Other Consumer-Oriented Products	27	44	76	1	1	2	1	1	2
FISH & SEAFOOD PRODUCTS	17	27	38	1	1	2	1	4	5
Salmon	1	1	1	0	0	0	0	0	0
Surimi	1	1	1	0	1	0	0	1	0
Crustaceans	1	1	1	0	1	0	0	1	0
Groundfish & Flatfish	3	5	6	0	1	1	0	2	2
Molluscs	1	1	1	0	1	1	0	33	4
Other Fishery Products	13	20	30	1	1	2	2	5	6
AGRICULTURAL PRODUCTS TOTAL	186	288	337	2	4	8	1	1	2
AGRICULTURAL, FISH & FORESTRY TOTAL	218	326	392	3	5	10	1	2	3

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

C. TOP 15 SUPPLIERS OF CONSUMER FOODS & FISHERY PRODUCTS

Latvia Imports

CONSUMER ORIENTED AG TOTAL (\$1,000)

	1995	1996	1997
Germany	13553	18651	29692
Netherlands	12850	17605	25995
Lithuania	4316	7587	25498
Estonia	6435	9081	15917
Poland	4871	10058	14368
Denmark	2688	4069	9936
Spain	2777	6948	9003
Chile	67	489	6181
Sweden	3334	4206	5782
Belgium	2523	5456	5450
Finland	3705	3440	5349
France	3074	4037	5347
United States	1139	2306	5176
Hungary	2471	5396	4500
Italy	3619	3835	4370
Other	30678	32488	32581
World	98153	135706	205176

Source: United Nations Statistics Division

FISH & SEAFOOD PRODUCTS (\$1,000)

	1995	1996	1997
Norway	7760	10306	12851
United Kingdom	3546	1901	5833
Ireland	117	323	2955
British Virgin Isla	0	1549	2109
United States	258	1175	1806
Lithuania	1007	2547	1653
Ukraine	0	2	1568
Estonia	634	1033	1527
Russian Federati	797	1118	1335
Netherlands	628	501	937
Iceland	32	376	907
Denmark	670	1430	796
Sweden	965	825	501
Germany	41	52	380
Belgium	269	1054	363
Other	769	2595	2167
World	17499	26781	37700